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UNCLAS SECTION 01 OF 02 PORT OF SPAIN 000370

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SANTO DOMINGO ALSO FOR REGIONAL COMMERCIAL OFFICE

SENSITIVE

E.O. 12958: N/A

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SUBJECT: FY2010 BUDGET - IN THE RED

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11. (SBU) SUMMARY: The FY 2010 GOTT budget totals \$7.03 billion with a projected deficit of \$1.2 billion, about 5.3 percent of GDP, based on average annual oil prices of \$55/barrel and natural gas at \$2.75/million cubic feet. This would be the second year in a row of budget deficits after a string of high commodity price aided surpluses -- in the current fiscal year concluding September 30, the budget deficit will be 6.3 percent with real GDP declining by 1 percent (the first decline after 15 years of growth). Trinidad's foreign reserves remain healthy at \$8.6 billion, representing 11 months of import cover. The proposed budget provides incentives for the construction and manufacturing sectors, a significant overhaul of the property tax system, promises incentives for energy exploration and development, additional tax exemptions for mortgage interest payments, and an unpopular increase in alcohol and tobacco duties. Opposition parties, which do not have the Parliamentary votes to stop the budget, labeled it a step toward national bankruptcy and devaluation. END SUMMARY

DEFICIT BUDGET

12. (U) Finance Minister Karen Nunez-Tesheira presented the GOTT's proposed FY 2010 (October 1-September 30) budget to Parliament September 7 in a three-hour nationally televised speech. The \$7.03 billion budget features a deficit of \$1.2 billion (approximately 5.3 percent of GDP) based on expected average oil prices of \$55/barrel and natural gas at \$2.75/million cubic feet; the bulk of government revenues come from energy exports. The FY2011 budget also is expected to be in the red, she forecast, with black ink only returning in FY2012. The deficit in FY2009 is now projected at \$1,342 million, or 6.3 percent of GDP. FY2009 also had the "distinction" of featuring the first decline in real GDP -- one percent -- since 1993. Similar to earlier statements by Prime Minister Manning, the Finance Minister denied that the country's Heritage and Stabilization Fund would be used finance the budget deficit. Instead, domestic bonds will be sold, with the possibility that external markets might also be tapped.

NEW CONSTRUCTION SECTOR DEDUCTIONS

13. (SBU) To stimulate the construction sector, a major employer, the proposed budget includes a reintroduction of an allowance permitting the deduction of 15 percent of all capital expenditures incurred in the construction of commercial or industrial buildings begun on or after October 1, 2009. In a September 8 post-budget discussion, Executive Director of PricewaterhouseCoopers Peter Inglefield questioned whether the allowance would have the desired effect,

arguing incentives should focus on existing, not new projects.

TAX CREDIT FOR EQUIPMENT BUT NOT RESEARCH

14. (U) In a further stimulative measure, the budget increases the amount manufacturers may claim against their taxes of expenditures to purchase machinery from 75% to 90% and includes an additional 25% annual machinery "wear and tear allowance." Therefore, if the machinery is acquired and put into use in the same year, the company may claim 115% of the cost incurred. Critics point out that the budget offers no incentives for research and development.

OIL/GAS FISCAL REGIME CHANGES PROMISED

15. (SBU) The budget presentation promised a revision of the oil and gas fiscal regime to stimulate exploration and development, but only offered a glimpse of the coming details. Nunez-Tesheira said the government may move toward a single-regime Supplemental Petroleum Tax (SPT) calculated on a field-by-field basis as well as adjusting in unspecified ways the current Production Sharing Contract regime. Industry and government sources agree there is a strong need for additional incentives, but many question whether the proposals will go far enough. More than one gas industry contact has told us that future bidding on new deep-water blocks may be non-existent absent major changes in the fiscal regime.

PROPERTY TAX OVERHAUL SPARKS PUBLIC OUTCRY

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16. (SBU) In a major overhaul of what the Minister termed T&T's "anachronistic" property tax regime, the government intends to implement a system using GPS technology and a computerized property tax database. Industry sources told EconOff the IT system connected to this effort is unnecessarily complex, raising the question of whether it will work.

17. (SBU) According to Nunez-Tesheira, over 120,000 properties are being overlooked for taxation and most properties are currently taxed based on 1960s property values. Under the new system, properties will be assessed at their present market value, based on the "rental value appraisal method." Agricultural property will be taxed at 1 percent, residential property at 3 percent, commercial property at 5 percent, and industrial property at 6 percent. This is projected to lead to a dramatic increase in property taxes and has become an issue of public debate, with the opposition saying this shows the GOTT cares little for the common man.

HOME OWNERSHIP INCENTIVE

18. (U) In an effort to promote lower and middle income home ownership, the GOTT plans to increase the number of home owners eligible for preferential mortgage rates. Currently, homes valued up to \$71,000 are eligible for 6-8 percent rates. The newly announced plan will increase the limit to homes valued up to \$135,000.

ALCOHOL/TOBACCO TAX INCREASE

19. (U) The new budget targets alcohol and tobacco for unpopular excise duty increases of 15 percent on locally manufactured rum, beer and other alcoholic products, 15 percent on alcoholic products imported from the Caribbean Common Market, and 30 percent on rum, beer and other alcoholic products from extra-regional sources. Although this measure has prompted public disgruntlement, the general consensus is that it will have minimal effect on domestic

consumption. The measure took effect immediately, leading to September 8 alcohol price increases.

FEW CHANGES TO OTHER AREAS

¶10. (SBU) The Finance Minister said that in the first six months of 2009 international air arrivals to Tobago declined by 47%, and hotel and guest house occupancy rates declined by 75% and 65%, respectively, but offered few remedies. Instead, the government will focus on encouraging development outside the tourism sector. On the health front, she mentioned efforts to finish construction of four hospitals and, speaking of education, she emphasized the country's free primary through tertiary education. The budget identifies no significant environmental measures for the next fiscal year. The budget also contains no hint that the gasoline subsidy will be reduced.

COMMENT: INTO THE UNKNOWN

¶11. (SBU) Comment: The GOTT put the best face possible on the FY2010 budget, arguing Trinidad and Tobago is doing much better than most countries and enjoys a "resilient" economy. Once its main markets rebound, along with natural gas prices, all will right itself. In the meantime, the government will employ prudent stimulus measures and countercyclical financing to control unemployment and ameliorate effects of the worldwide recession. Nonetheless, the somber message that the GOTT will run a budget deficit for the second straight year led the opposition to charge that Manning is leading T&T down the road of bankruptcy and devaluation. For a nation used to surpluses and positive economic growth, the current situation is, in some ways, a leap into the unknown.

KUSNITZ